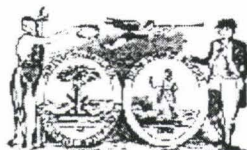


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STATE OF SOUTH CAROLINA
State Budget and Control Board
OFFICE OF GENERAL SERVICES

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GOVERNOR
GRADY L. PATTERSON, JR.
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GEORGE N. DORN, JR.
DIRECTOR

MATERIALS MANAGEMENT OFFICE
1201 MAIN STREET, SUITE 600
COLUMBIA, SOUTH CAROLINA 29201
(803) 737-0600
Fax (803) 737-0639

R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

July 17, 2001

Mr. George N. Dorn, Jr., Director
Office of General Services
1201 Main Street, Suite 420
Columbia, South Carolina 29201

Dear George:

I have attached the audit report for the South Carolina Commission on Higher Education. Since we are not recommending any certification above the basic \$5,000 allowed by the Code, no action is required by the Budget and Control Board. Therefore, I recommend that the report be presented to the Budget and Control Board as information.

Sincerely,

R. Voight Shealy

R. Voight Shealy
Materials Management Officer

/jl

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**SOUTH CAROLINA COMMISSION ON HIGHER EDUCATION
PROCUREMENT AUDIT REPORT**

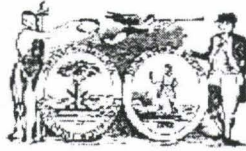
JULY 1, 1999 - MARCH 31, 2001

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Fax (803) 737-0639

R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

June 28, 2001

Mr. R. Voight Shealy
Materials Management Officer
Office of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Voight:

We have examined the procurement policies and procedures of the South Carolina Commission on Higher Education for the period July 1, 1999 through March 31, 2001. As part of our examination, we studied and evaluated the system of internal control over procurement transactions to the extent we considered necessary.

The evaluation was to establish a basis for reliance upon the system of internal control to assure adherence to the Consolidated Procurement Code, State regulations, and the Commission's procurement policy. Additionally, the evaluation was used in determining the nature, timing and extent of other auditing procedures necessary for developing an opinion on the adequacy, efficiency and effectiveness of the procurement system.

The administration of the South Carolina Commission on Higher Education is responsible for establishing and maintaining a system of internal control over procurement transactions. In fulfilling this responsibility, estimates, and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to

provide management with reasonable, but not absolute, assurance of the integrity of the procurement process, that affected assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and are recorded properly.

Because of inherent limitations in any system of internal control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation of the system of internal control over procurement transactions, as well as our overall examination of procurement policies and procedures, were conducted with professional care. However, because of the nature of audit testing, they would not necessarily disclose all weaknesses in the system.

The examination did, however, disclose conditions enumerated in this report which we believe need correction or improvement. Corrective action based on the recommendations described in these findings will in all material respects place the South Carolina Commission on Higher Education in compliance with the Consolidated Procurement Code and ensuing regulations.

Sincerely,

A handwritten signature in dark ink, appearing to read "Larry G. Sorrell", written in a cursive style.

Larry G. Sorrell, Manager
Audit and Certification

INTRODUCTION

We conducted an examination of the internal procurement operating policies and procedures of the South Carolina Commission on Higher Education. Our on-site review was conducted May 9 through 21, 2001, and was made under Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code and Section 19-445.2020 of the accompanying regulations.

The examination was directed principally to determine whether, in all material respects, the procurement system's internal controls were adequate and the procurement procedures, as outlined in the Internal Procurement Operating Procedures Manual, were in compliance with the South Carolina Consolidated Procurement Code and its ensuing regulations.

Additionally, our work was directed toward assisting the Commission in promoting the underlying purposes and policies of the Code as outlined in Section 11-35-20, which includes:

- (1) to ensure the fair and equitable treatment of all persons who deal with the procurement system of this State
- (2) to provide increased economy in state procurement activities and to maximize to the fullest extent practicable the purchasing values of funds of the State
- (3) to provide safeguards for the maintenance of a procurement system of quality and integrity with clearly defined rules for ethical behavior on the part of all persons engaged in the public procurement process

SCOPE

We conducted our examination in accordance with Generally Accepted Auditing Standards as they apply to compliance audits. Our examination encompassed a detailed analysis of the internal procurement operating procedures of the South Carolina Commission on Higher Education and its related policies and procedures manual to the extent we deemed necessary to formulate an opinion on the adequacy of the system to properly handle procurement transactions.

We selected a judgmental sample for the period July 1, 1999 through March 31, 2001 of procurement transactions for compliance testing and performed other audit procedures that we considered necessary to formulate this opinion. Specifically, the scope of our audit included, but was not limited to, a review of the following:

- (1) All sole source, emergency and trade-in sale procurements for the period July 1, 1999 through March 31, 2001
- (2) Procurement transactions for the period July 1, 1999 through March 31, 2001 as follows:
 - a) Forty-eight payments each exceeding \$1,500
 - b) A block sample of two hundred ninety voucher payments
- (3) Minority Business Enterprise Plans and reports
- (4) Information Technology Plan for the fiscal years 2000 and 2001
- (5) File documentation for evidence of competition
- (6) Internal procurement procedures manual
- (7) Surplus property procedures

RESULTS OF EXAMINATION

The Office of Audit and Certification performed an examination of the internal procurement operating policies, procedures, and related manual of the Commission on Higher Education for the period July 1, 1999 through March 31, 2001.

Since our last compliance audit in 1998, the Commission has maintained what we consider to be a professional, efficient procurement system. We did note, however, the following items which should be addressed by management.

Procurements Without Competition

The following three procurements were not supported by either solicitations of competition, sole source or emergency procurement determinations, term contract references or classified as exempt items.

<u>Voucher</u>	<u>Date</u>	<u>Description</u>	<u>Amount</u>
DV235	09/11/99	Office supplies	\$2,388
DV1094	02/05/01	Projector	4,702
DV1051	02/10/00	Office renovations	16,637

The procurement paid on DV1051 exceeded the Commission's procurement authority of \$5,000 thus resulting in the procurement being unauthorized as defined in Regulation 19-445.2015. A request for ratification of the unauthorized procurement must be submitted to the Materials Management Officer in accordance with Regulation 19-445.2015.

We recommend the Commission adhere to the competition requirements of the Code when the potential value exceeds \$1,500.

Artificially Divided Procurements

The Student Services Division used the purchase card to procure office supplies as noted below.

<u>Voucher</u>	<u>Requisition Date</u>	<u>Invoice Number</u>	<u>Amount</u>
DV196	6/28/00	49905	\$480
DV196	6/28/00	49906	<u>185</u>
		Total	<u>\$665</u>

<u>Voucher</u>	<u>Requisition Date</u>	<u>Invoice Number</u>	<u>Amount</u>
DV2051	6/12/00	49699	446
DV2051	6/12/00	49700	476
DV2051	6/12/00	49701	<u>447</u>
		Total	<u>\$1,369</u>

The purchase card policy at the Commission limits each transaction to \$500 and specifically states that the authority to use the purchase card can be terminated if the cardholder splits a purchase to circumvent the \$500 limit. On vouchers DV196 and DV2051, the same person ordered the office supplies from the same vendor on the dates noted to avoid the \$500 limit.

We recommend the Commission monitor the credit card statements for evidence of dividing purchases to circumvent the \$500 limit per transaction.

CONCLUSION

As enumerated in our transmittal letter, corrective action based on the recommendations described in this report, we believe, will in all material respects place the South Carolina Commission on Higher Education in compliance with the Consolidated Procurement Code and ensuing regulations and the Commission's internal policies.

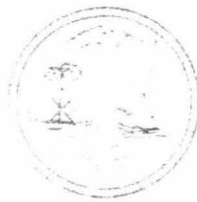
The Commission has not requested increased procurement certification above the basic limit of \$5,000 allowed by the Code. Subject to the corrective action listed in this report, we will recommend the Commission be allowed to continue procuring goods and services, consultant services, construction services and information technology up to the basic level of \$5,000 as allowed by the South Carolina Consolidated Procurement Code and accompanying regulations.



David E. Rawl, CPPB
Senior Auditor



Larry G. Sorrell, Manager
Audit and Certification



SOUTH CAROLINA COMMISSION ON HIGHER EDUCATION

1333 MAIN STREET

SUITE 200

COLUMBIA, S.C. 29201

RAYBURN BARTON
Executive Director

TELEPHONE
803/737-2260

FAX NUMBER
803/737-2297

July 13, 2001

Mr. Larry G. Sorrell, Manager
Office of Audit and Certification
Office of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Larry:

This comes in response to the preliminary draft of the report resulting from your examination of the Commission's procurement practices for the period of July 1, 1999 through March 31, 2001. We are in general agreement with your summary of findings and recommended corrective actions.

With regard to those findings of three procurement transactions made without evidence of competition, the Commission concurs with the findings listed. Two of these findings were the result of misinterpretation of the Procurement Code, while the other was a matter of the mislaying of supporting documentation.

We attribute the cause of the two citations for artificial division of purchases to the inexperience of the cardholders in the first month of purchase card operations in June, 2000. Those same cardholders have been counseled at-length on the proper use of the purchase card.

Once again, we do appreciate the amicable manner in which your audit team performed its work and conducted in-process reviews of its findings. We genuinely believe that evaluations of this nature help us to better understand the Code and to improve our operations.

For your convenience we have included a listing of our current Board members. Please do not hesitate to contact me directly with questions or concerns at (803) 737-2263, or by e-mail at jrichard@che400.state.sc.us.

Sincerely,

A handwritten signature in black ink, appearing to be 'JR' or 'Jeff Richards', written over the word 'Sincerely,'.

Jeff Richards
Operations

Cc: John Smalls, Director of Finance
Helen Whetsell, Procurement Officer

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R. VOIGHT SHEALY
MATERIALS MANAGEMENT OFFICER

July 17, 2000

Mr. R. Voight Shealy
Materials Management Officer
Materials Management Office
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Voight:

We have reviewed the South Carolina Commission on Higher Education's response to our audit report for July 1, 1999 – March 31, 2001. Also, we have followed the Commission's corrective action during and subsequent to our field work. We are satisfied that the Commission has corrected the problem areas and the internal controls over the procurement system are adequate.

Additional certification was not requested. Therefore, we recommend the Commission be allowed to continue procuring all goods and services, construction services, information technology and consulting services up to the basic level of outlined in the Code.

Sincerely,

A handwritten signature in cursive script, appearing to read 'Larry G. Sorrell'.

Larry G. Sorrell, Manager
Audit and Certification

LGS/jl

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